

# INTERIM REPORT JANUARY 29

## FOURTH QUARTER 2014



# FULL YEAR 2014

## ACTIVE PORTFOLIO MANAGEMENT

- Acquisition of Varel International Energy Services
- Divestments of Sandvik Material Technologies distribution business in AUS/NZ and Power Spring business in North America

## PROGRESS ON SUPPLY CHAIN OPTIMIZATION

- 11 site closures initiated where of 5 closed in 2014

## STABLE MARKET CONDITIONS

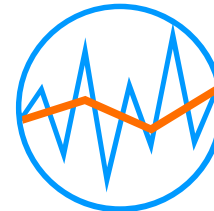
- Invoicing 89 BSEK, 11% EBIT Margin

## MAINTAINED DIVIDEND

- 3.50 SEK (3.50) per share proposed by the Board of directors



YIELD  
HIGHER  
RETURNS



REDUCE  
EARNINGS  
VOLATILITY



DEVELOP MORE  
TOWARDS FAST  
GROWING MARKETS

# SUMMARY Q4 2014

## MIXED DEMAND PATTERN

- Strong development in North America and stable in Asia and Europe
- Continued low order intake in Mining Systems
- Demand in the energy segment impacted by lower oil price

## STRONG CASH-FLOW

- Cash-flow from operating activities 4.1 BSEK
- Inventory reductions
- Net debt/Equity ratio 0.75

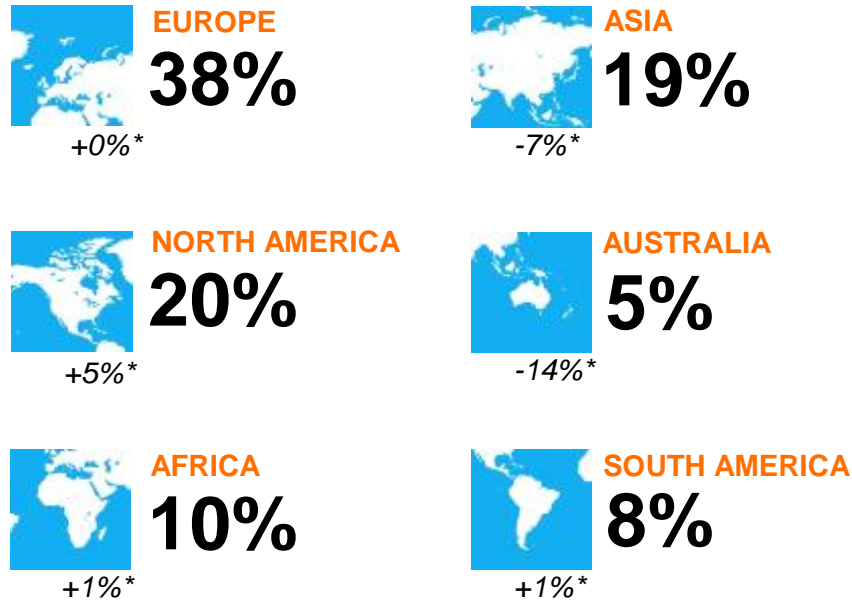
## EARNINGS GROWTH

- EBIT 2,623 MSEK, 11.2%
- Currency effects +270 MSEK
- Metal price effect -71 MSEK
- Capital gain from divestments +71 MSEK



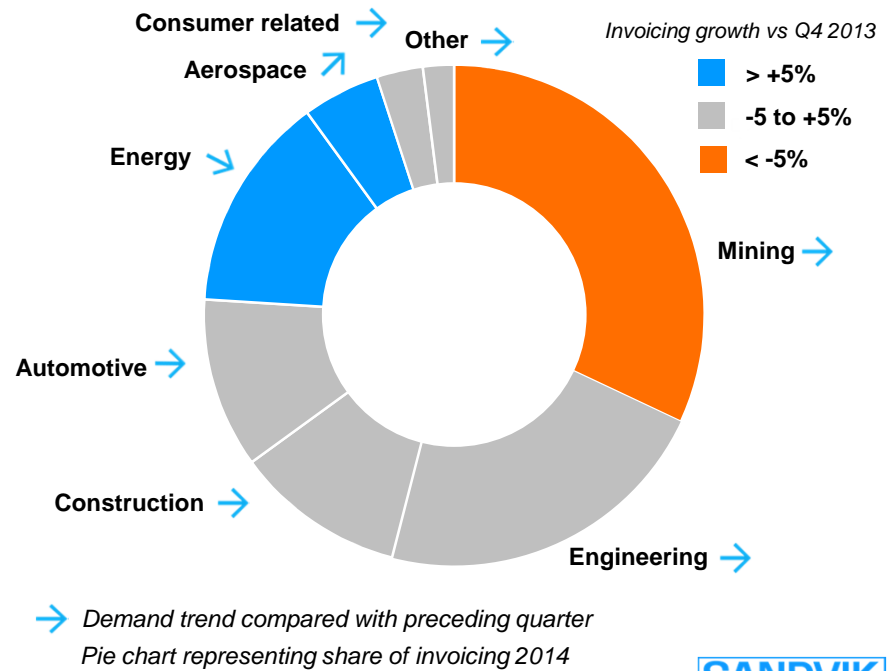
# INVOICING BY MARKETS AND SEGMENTS

## MARKETS, SHARE OF GROUP TOTAL



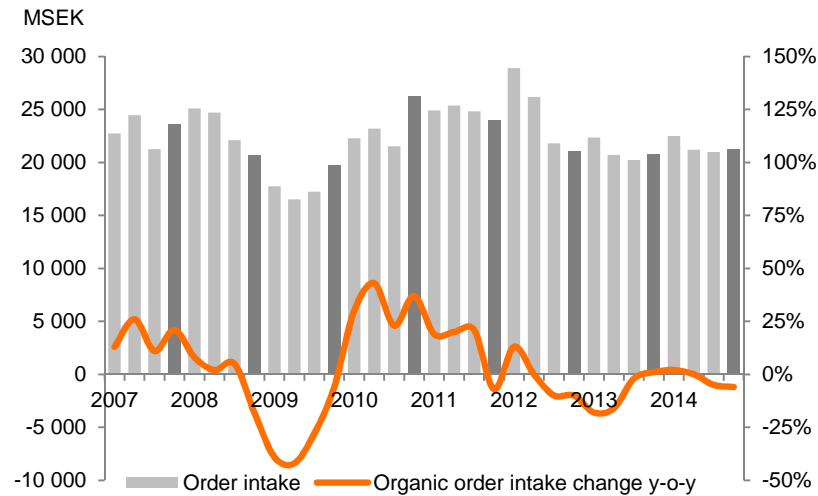
\* Change compared with preceding year, p/v

## CUSTOMER SEGMENTS



# ORDER INTAKE 21,286 MSEK

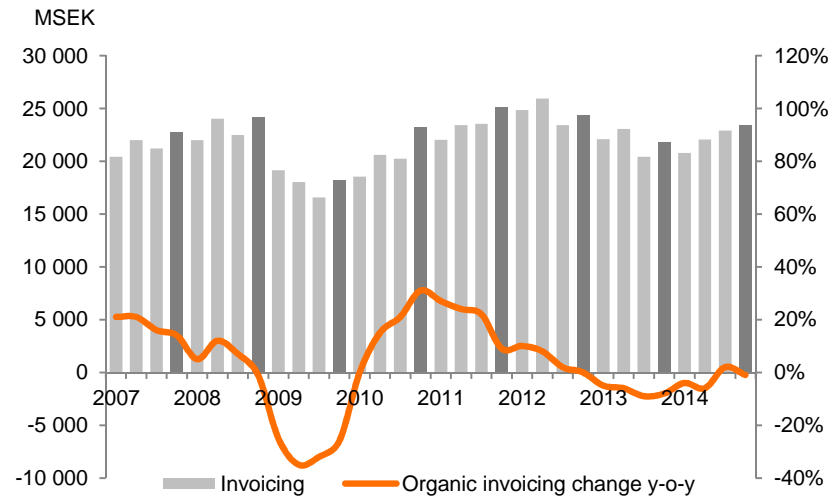
CHANGE P/V -6%



- Continued strong development in North America and Aerospace
- Stable demand in most other segments and geographies
- Book-to-bill 0.91 due to low order intake for Mining Systems and Sandvik Materials Technology

# INVOICING 23,394 MSEK

CHANGE P/V -1%

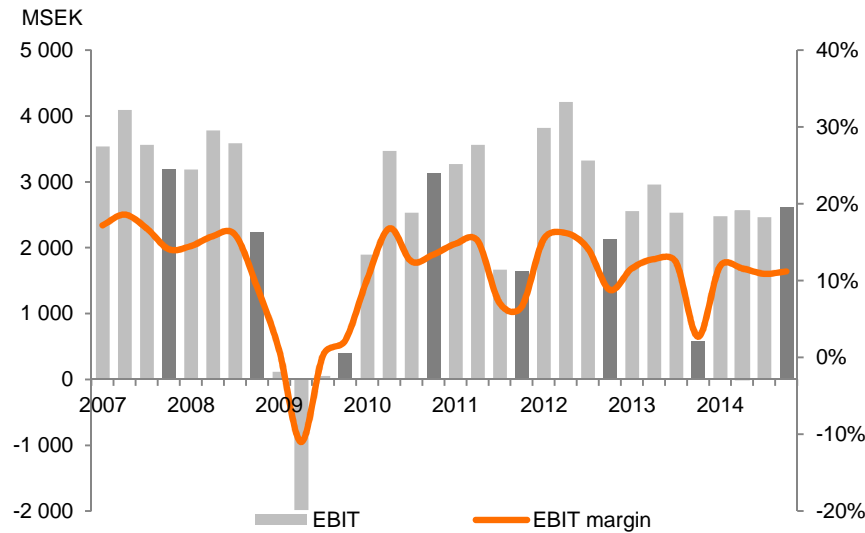


- Record high invoicing in Sandvik Machining Solutions
- Invoicing in Sandvik Mining still decreasing hampered by a shrinking order back log.
- Change compared with preceding quarter, 2%, p/v



# EBIT 2,623 MSEK

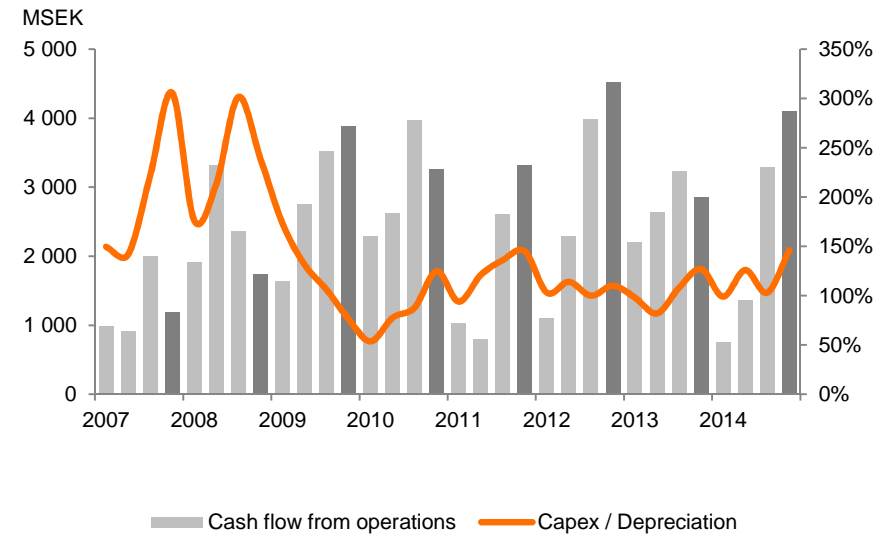
MARGIN 11.2%



- Year-on-year earnings growth supported by growth in Sandvik Machining Solutions and effects from savings initiatives.
- Currency effect +270 MSEK

# CASH FLOW

CASH FLOW FROM OPERATIONS 4 104 MSEK



- Inventory reductions in all Business Areas, most significant in Sandvik Materials Technology and Sandvik Construction
- Investments 1.5 BSEK in Q4 and 4.7 BSEK full year 2014

2013 Q3 Adjusted due to tax payment of about 5,800 MSEK related to reorganization of intellectual property rights



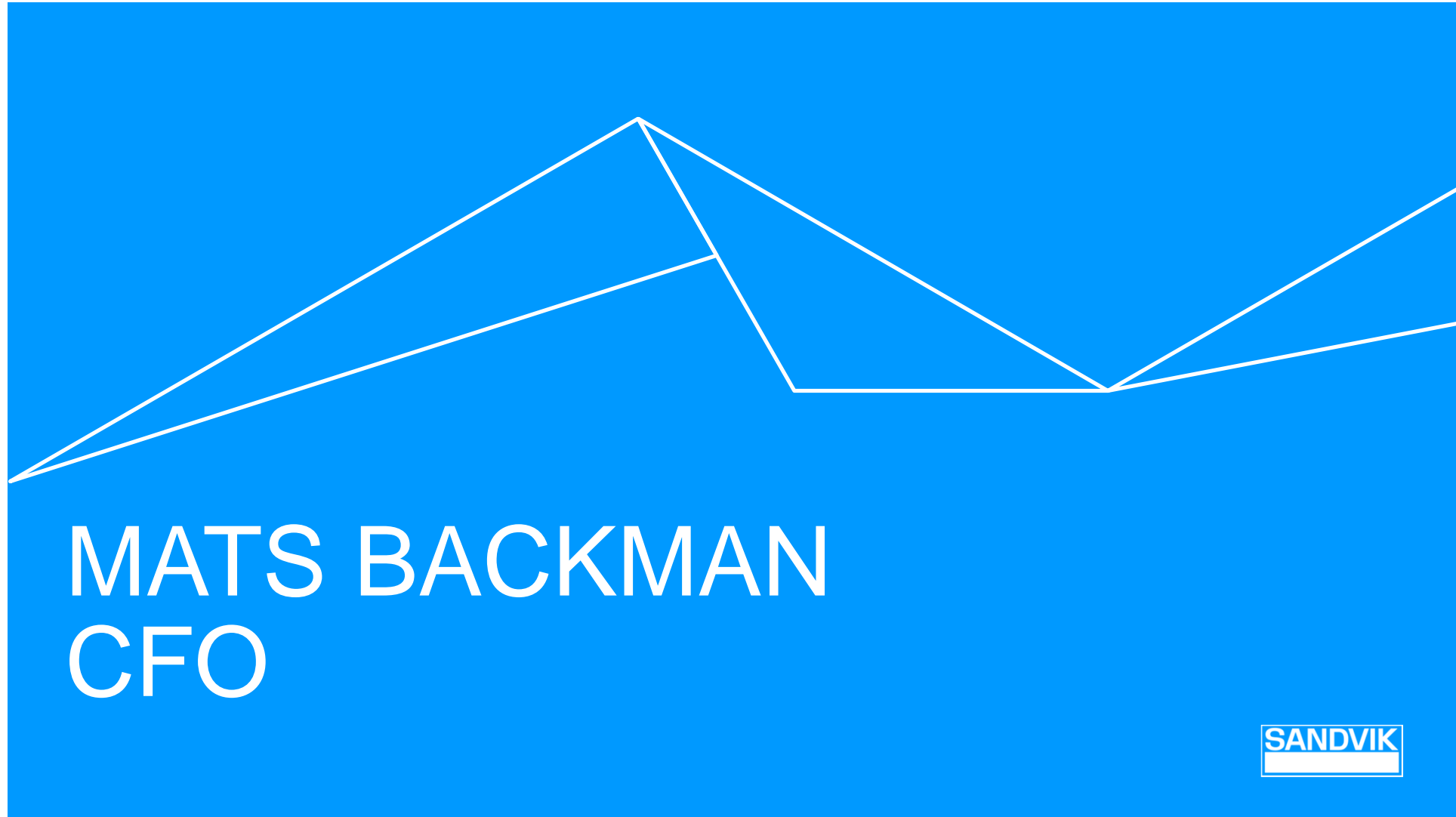
# FINANCIAL TARGETS

	CURRENT	TARGET	MANAGEMENT FOCUS
<b>GROWTH</b>	<b>7%*</b>	<b>8%</b>	<ul style="list-style-type: none"> <li>• Product launches through focused R&amp;D</li> <li>• Increase exposure towards high growth markets and segments</li> <li>• Adjust geographic footprint</li> </ul>
<b>ROCE</b>	<b>13.4%</b>	<b>25%</b>	<ul style="list-style-type: none"> <li>• Reduce Net Working Capital</li> <li>• Strict capital allocation (investments)</li> <li>• Restore earnings in Sandvik Mining and Sandvik Construction</li> </ul>
<b>NET DEBT/ EQUITY RATIO</b>	<b>0.75</b>	<b>&lt; 0.8</b>	<ul style="list-style-type: none"> <li>• Reduction in Q4</li> <li>• Strong cash flow generation</li> </ul>
<b>DIVIDEND</b>	<b>73% for 2014**</b>	<b>50% of EPS</b>	<ul style="list-style-type: none"> <li>• Proposed dividend maintained at 3.50 SEK per share (3.50)</li> <li>• Uninterrupted dividend since 1870</li> </ul>

\* As reported including currency and structure

\*\*Proposed dividend





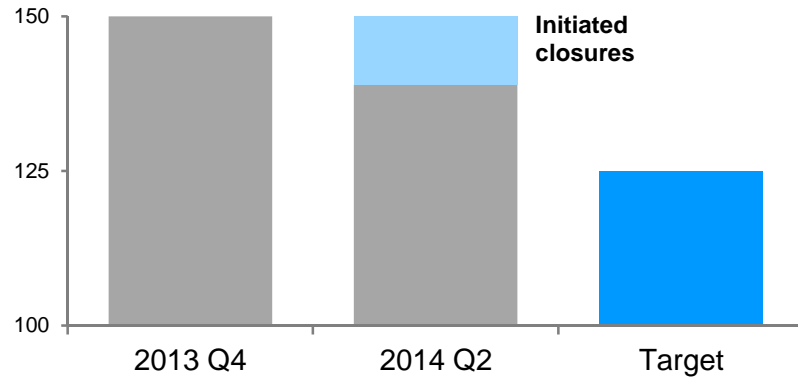
MATS BACKMAN  
CFO





# RESTRUCTURING OUR FOOTPRINT

## PRODUCTION UNITS



**INITIATED  
CLOSURES**  
Since 2013 Q4

11

**UNITS  
CLOSED**  
Since 2013 Q4

5

**Reduce number of production units from 150 to 125 by 2017**

### Initial phase launched in Q4 2013

- Closure of 11 units
- Annual savings of 800 MSEK at end 2015
- Total restructuring cost 900 MSEK (Q4 2013)
- Personnel net, about -750

### Progression

- 5 closures finalized in 2014 - France, South Africa, Germany, Italy and UK
- Remaining units to be closed in 2015, Australia (3), Sweden (2) and UK (1)
- Savings in Q4: 65 MSEK






# RESTRUCTURING OUR FOOTPRINT

## FIRST PHASE - PLANNED TIME OF COMPLETION FOR INITIATED CLOSURES

	2014	Q1 2015	Q2-Q4 2015	TOTAL
SANDVIK MINING	2	1	2	5
SANDVIK MACHINING SOLUTIONS	2	-	2	4
SANDVIK CONSTRUCTION	1	1	-	2
<b>GROUP TOTAL</b>	<b>5</b>	<b>2</b>	<b>4</b>	<b>11</b>

# RESTRUCTURING OUR FOOTPRINT

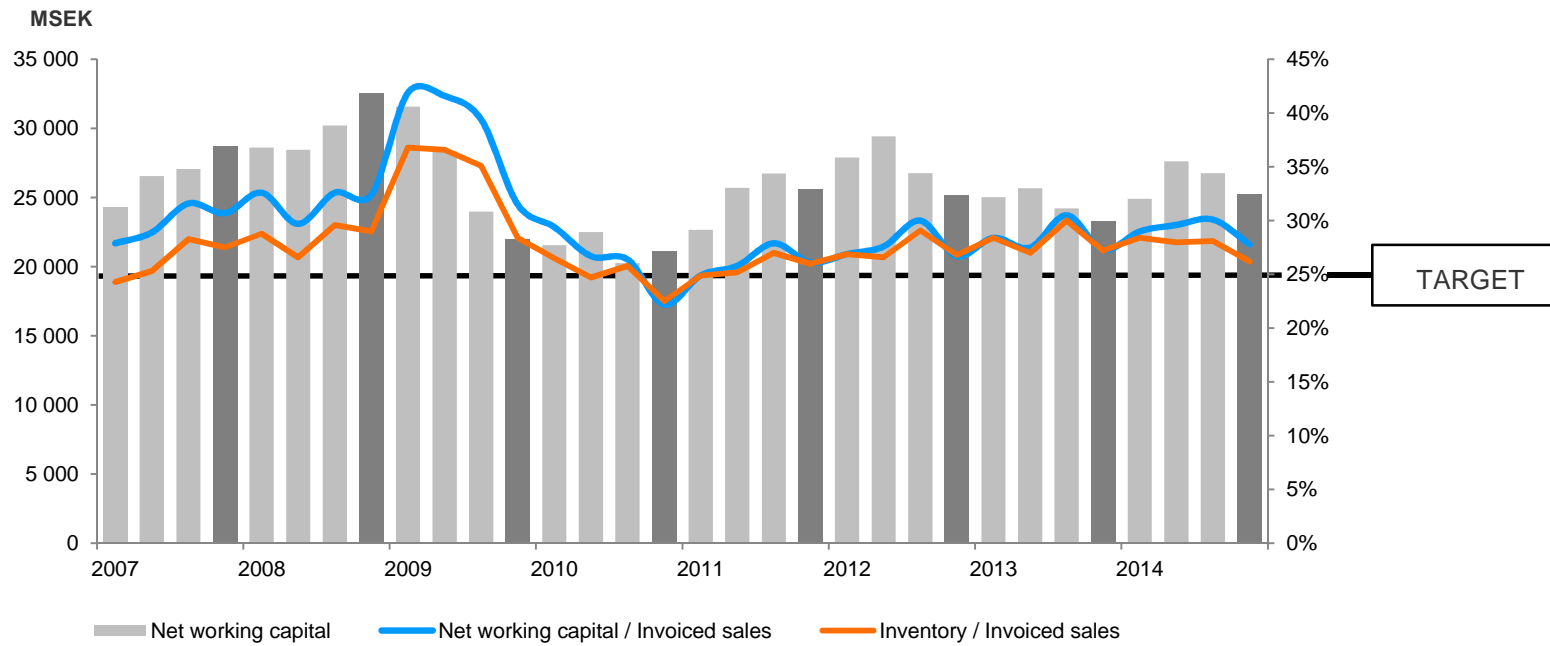
## FIRST PHASE – SAVINGS PROFILE (MSEK)

	 SANDVIK MINING	 SANDVIK MACHINING SOLUTIONS	 SANDVIK CONSTRUCTION	SAVINGS PROFILE ANNUAL RUN-RATE
2014	60	120	80	<b>260</b>
2015	440	80	20	<b>540</b>
<b>TOTAL</b>	<b>500</b>	<b>200</b>	<b>100</b>	<b>800 MSEK</b>

<sup>10</sup> Sandvik Interim Report on the fourth quarter 2014

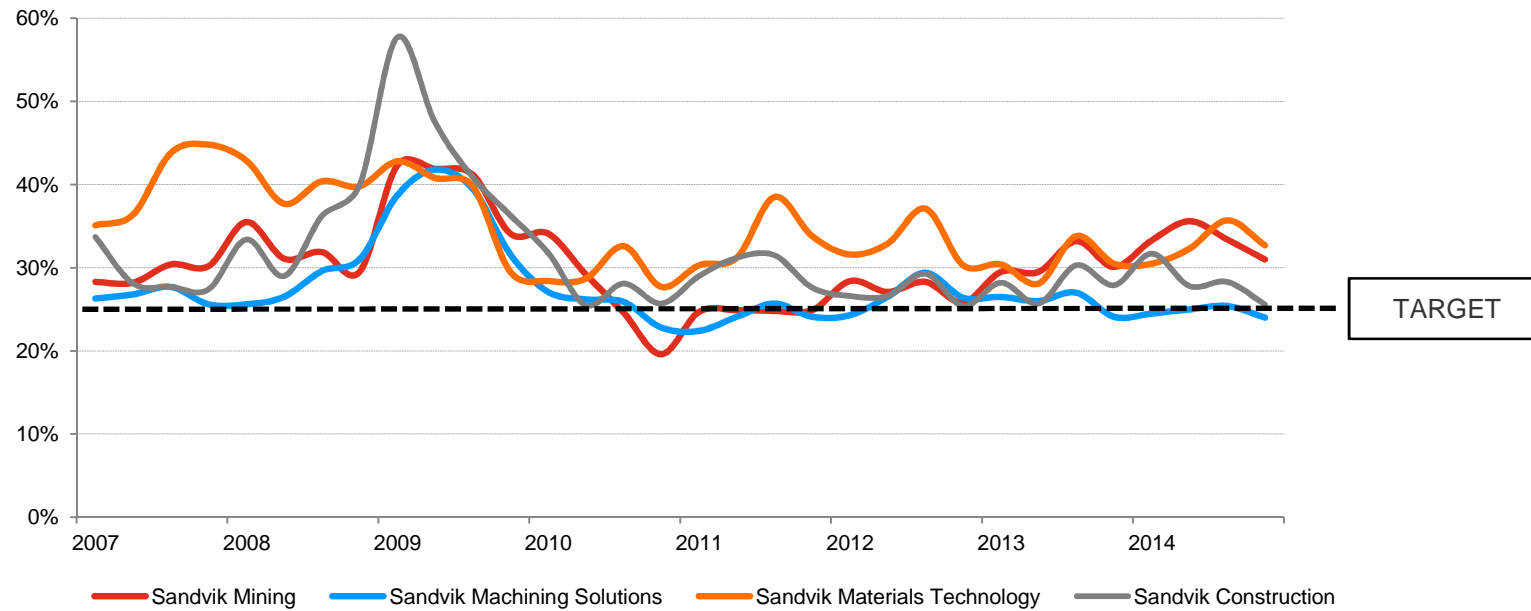


# NET WORKING CAPITAL



# NET WORKING CAPITAL

## % OF INVOICING BY BUSINESS AREA

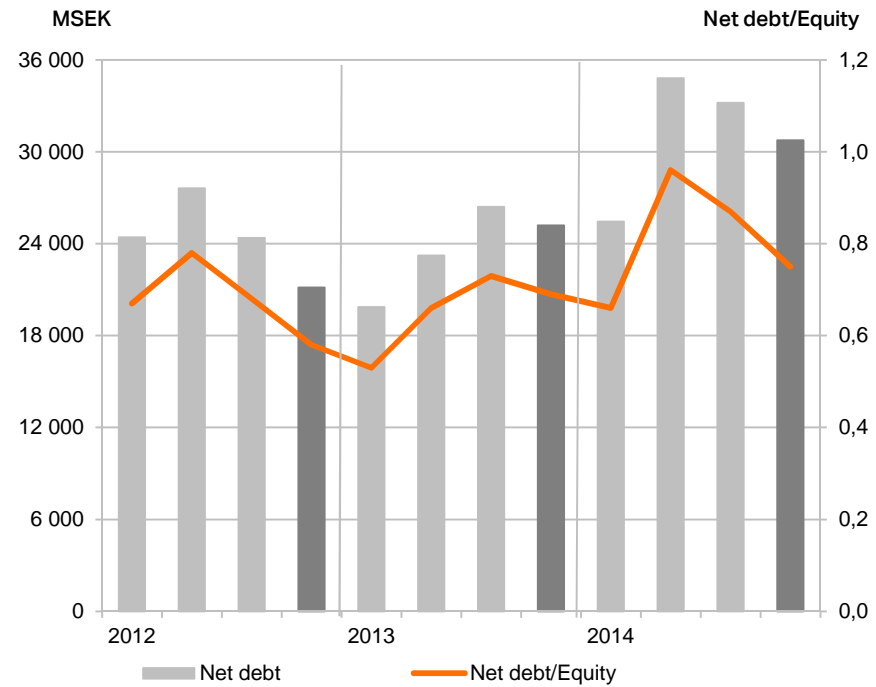


# NET DEBT

**NET DEBT TO EQUITY 0,75**

**STRONG CASH FLOW**

**INVENTORY REDUCTIONS**



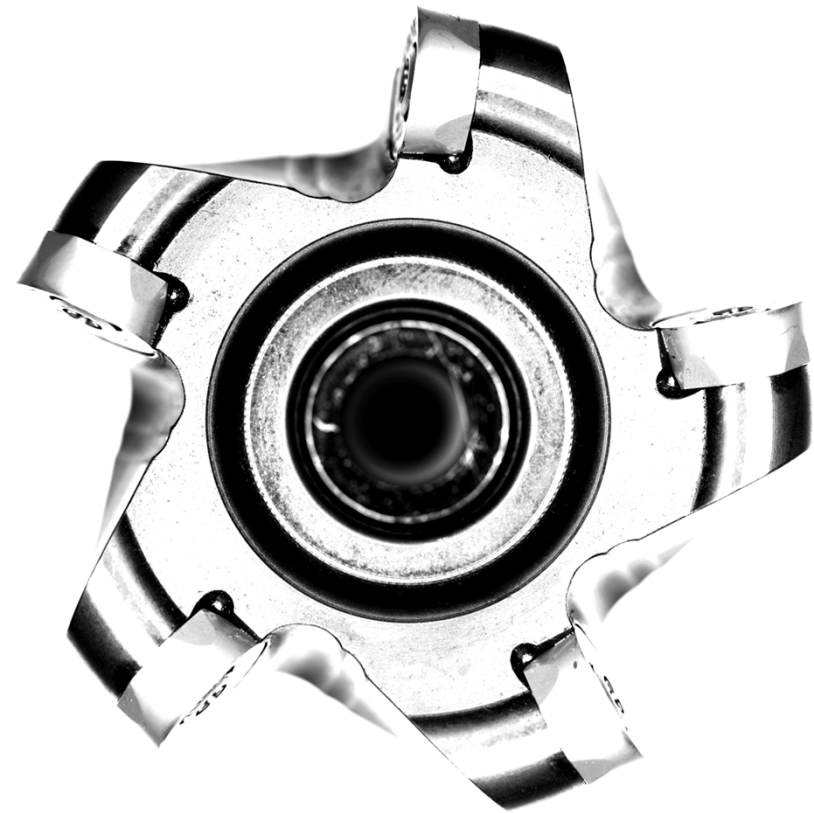
# SUMMARY Q4 2014

**EARNINGS GROWTH**

**STRONG CASH FLOW**  
**NET DEBT TO EQUITY 0.75**

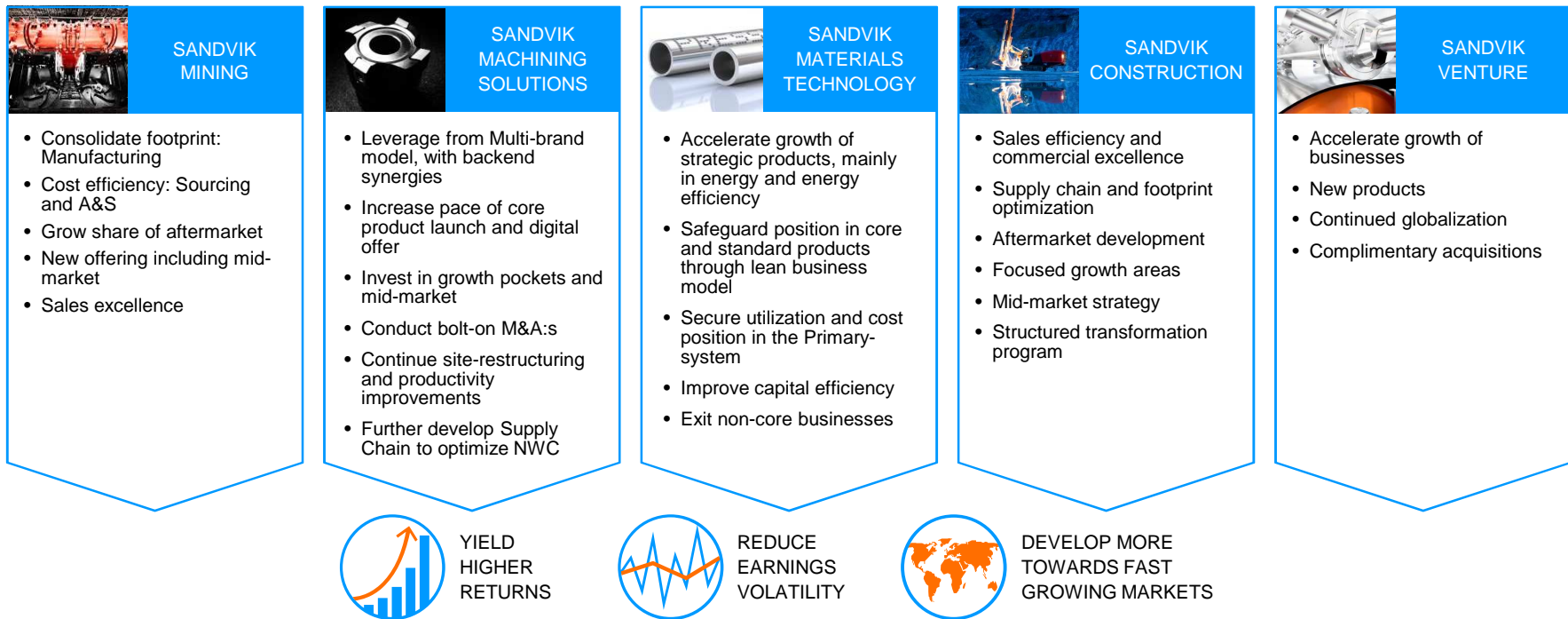
**GOOD PROGRESS ON SUPPLY CHAIN**  
**OPTIMIZATION PROGRAM**

**MIXED DEMAND**



# OUR WAY FORWARD

## KEY PRIORITIES BY BUSINESS AREA



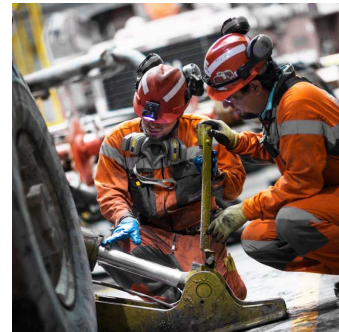


# LOOKING FORWARD INTO 2015

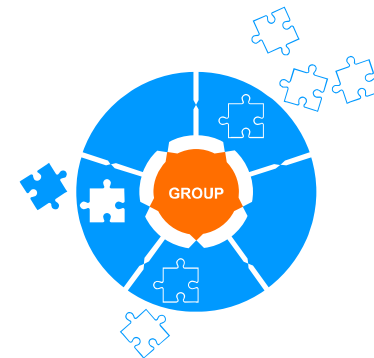
**>15,000 NEW PRODUCT LAUNCHES**  
in Sandvik Machining Solutions



**GROW THE AFTERMARKET BUSINESS**  
in Sandvik Mining and Sandvik Construction



**ACTIVE PORTFOLIO MANAGEMENT**  
across the group

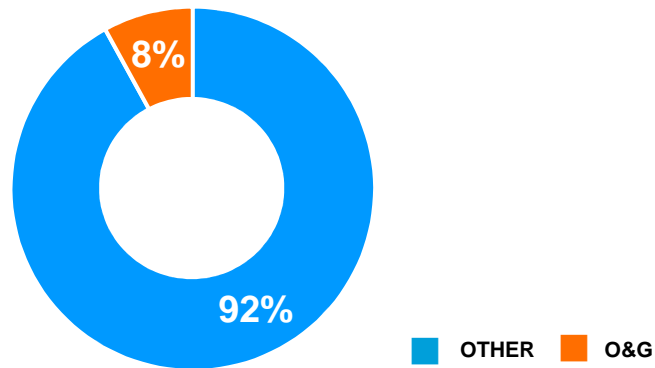




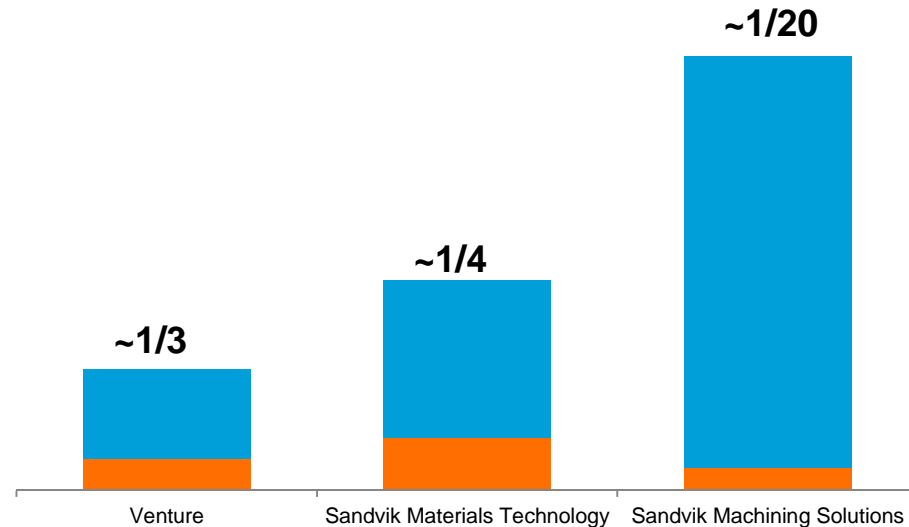
# BACK-UP SLIDES

# OIL & GAS EXPOSURE

REVENUE FROM O&G IN 2014 ~7.5 BN. SEK



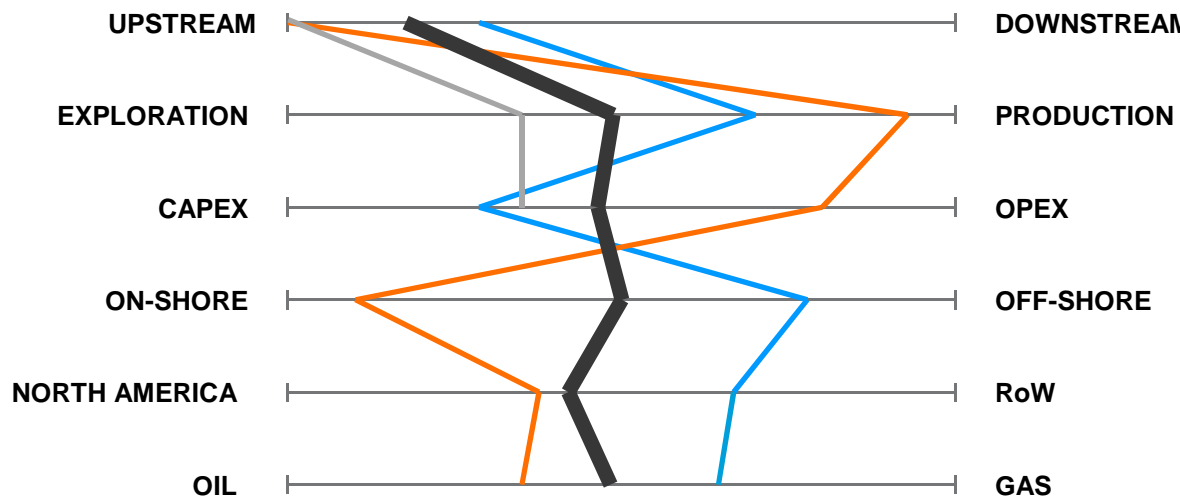
- Limited exposure to O&G sector ~8%
- O&G/Energy is a long-term commitment for Sandvik albeit short/mid-term variances in order intake



- Exposure over 3 business areas
- Highest in Venture with 1/3 towards oil and gas
- Different parts of O&G sector
  - Upstream (mainly production) & downstream
  - Off- and on-shore
  - CAPEX and OPEX driven business
  - Geographical spread: NA and RoW



# DIVERSE EXPOSURE WITHIN OIL AND GAS



For SMS: No line =Unknown information (On/Offshore, NA/RoW, O/G)

- Sandvik Materials Technology
- Sandvik Venture (Varel/Hyperion)
- Sandvik Machining Solutions
- Group (weighted)

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Sandvik Interim Report on the fourth quarter 2014

## Sandvik Materials Technology

- Complex off-shore projects with long planning horizon and long pay-off times
- Investment decisions based on long-term oil price

## Sandvik Venture/Varel

- Productivity enhancing products with relatively low cost
- OPEX-driven decisions
- Quick reactions in shale exploration (new technology)

## Sandvik Machining Solutions

- Downturn in oil and gas off-set by other segments e.g. Aerospace and Automotive



# BRIDGE ANALYSIS SANDVIK GROUP

<b>MSEK</b>	<b>Q4 2013</b>	<b>PRICE/ VOLUME/ PRODUCTIVITY</b>	<b>CURRENCY</b>	<b>STRUCTURE ONE-OFFS*</b>	<b>Q4 2014</b>
Invoicing	21,770	-360	1,440	550	23,394
EBIT	590	-140	270	1,900	2,623
EBIT margin	3%	-39%	-	-	11%

\* Includes metal price effects

# BRIDGE ANALYSIS

MSEK	Q4 2013	PRICE/ VOLUME/ PRODUCTIVITY	CURRENCY	STRUCTURE ONE-OFFS*	Q4 2014
<b>SANDVIK MINING</b>					
Invoicing	7,334	-660	360	-	7,039
EBIT	-480	-150	20	1250	644
EBIT margin	-7%	-23%	-	-	9%
<b>SANDVIK MACHINING SOLUTIONS</b>					
Invoicing	7,363	220	540	-	8,112
EBIT	1,084	60	130	350	1,622
EBIT margin	15%	27%	-	-	20%
<b>SANDVIK MATERIALS TECHNOLOGY</b>					
Invoicing	3,360	310	180	-100	3,758
EBIT	350	-180	90	80	330
EBIT margin	10%	N/A		-	9%

\* Includes metal price effects

# BRIDGE ANALYSIS

MSEK	Q4 2013	PRICE/ VOLUME/ PRODUCTIVITY	CURRENCY	STRUCTURE ONE-OFFS*	Q4 2014
<b>SANDVIK CONSTRUCTION</b>					
Invoicing	2,174	-160	160	-	2,169
EBIT	-223	10	15	200	4
EBIT margin	-10%	N/A	-	-	0%
<b>SANDVIK VENTURE</b>					
Invoicing	1,538	-80	190	650	2,301
EBIT	309	-15	15	25	335
EBIT margin	20%	-19%	-	-	15%

# SANDVIK MINING

## Q4 2014

### STABLE DEMAND

- Stable demand for Equipment and Aftermarket
- Continued low order intake for Mining Systems

### EBIT 644 MSEK, 9.2%

- Currency effects +20 MSEK
- Low sales and production rates
- Continued net working capital reduction

### SUPPLY CHAIN OPTIMIZATION

- Closure of one unit finalized, Bergneustadt, Germany

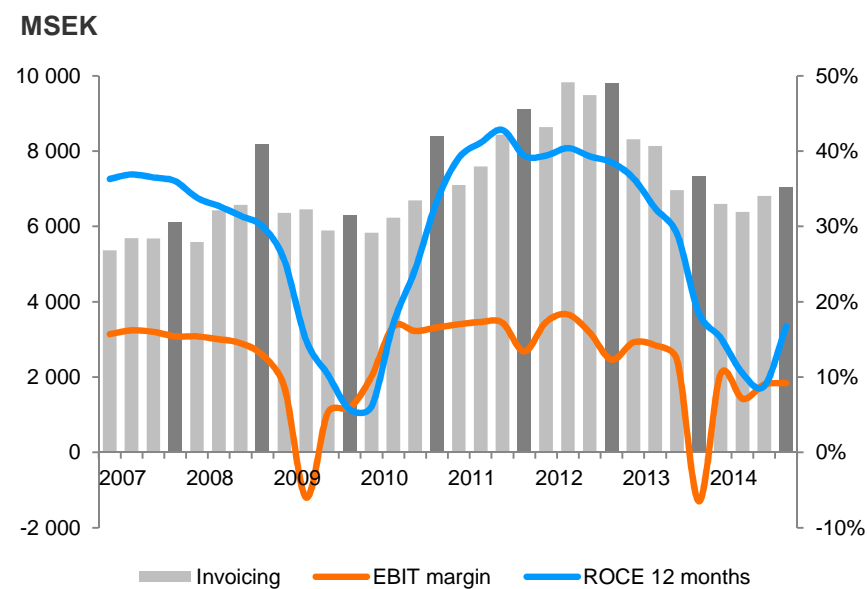




# SANDVIK MINING

## Q4 2014

Order intake	5,695 MSEK
Invoicing	7,039 MSEK
EBIT	644 MSEK
ROCE	16.7%



# SANDVIK MACHINING SOLUTIONS

## Q4 2014

**RECORD HIGH INVOICING 8,129 MSEK**

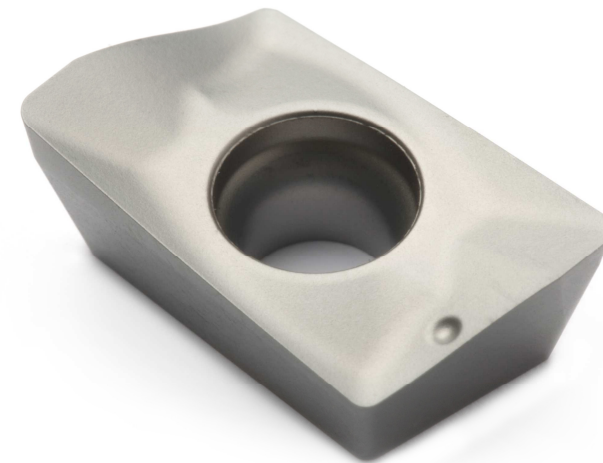
### **UNCHANGED MARKET TREND**

- Strong development in the aerospace industry
- Continued strong development in North America
- Asia and Europe stable sequentially

**EBIT 1,622 MSEK, 20.0%**

- Currency effects +130 MSEK
- Strong cashflow

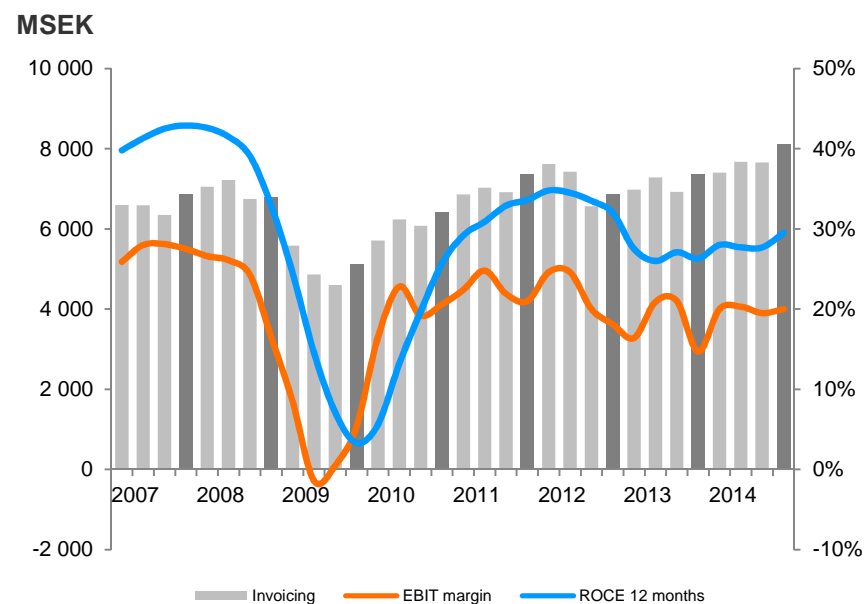
### **PROGRESS ON SUPPLY CHAIN OPTIMIZATION**



# SANDVIK MACHINING SOLUTIONS

## Q4 2014

Order intake	8,129 MSEK
Invoicing	8,122 MSEK
EBIT	1,622 MSEK
ROCE	29.5%



# SANDVIK MATERIALS TECHNOLOGY Q4 2014

## MIXED DEMAND

- Increased uncertainty in oil and gas
- Major order from the nuclear segment

## EBIT 330 MSEK, 8.8%

- Currency effects +90 MSEK
- Metalprice effect -71 MSEK
- Net EBIT effect from divestments +71 MSEK

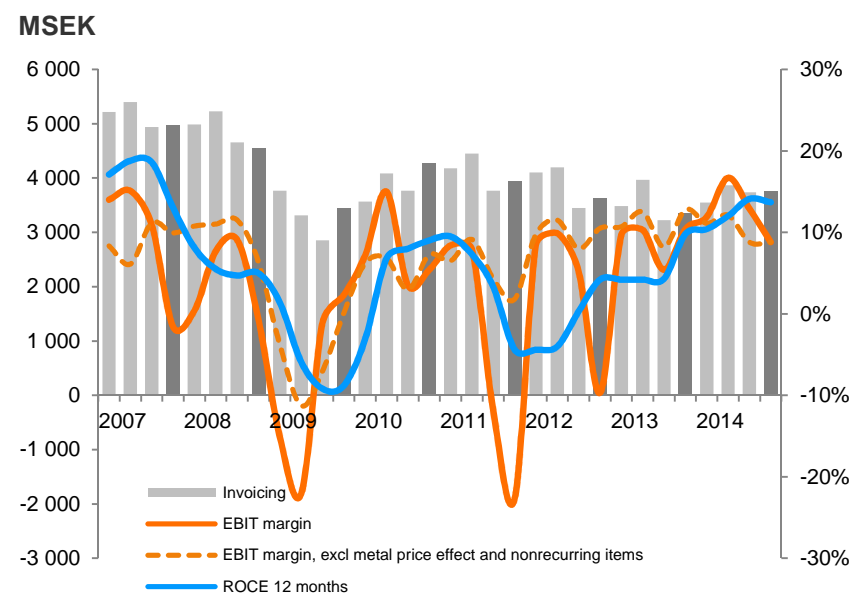
## NET WORKING CAPITAL REDUCTIONS DRIVE STRONG CASH-FLOW

## DIVESTMENT OF POWER SPRING BUSINESS IN NORTH AMERICA



# SANDVIK MATERIALS TECHNOLOGY Q4 2014

Order intake	3,296 MSEK
Invoicing	3,758 MSEK
EBIT	330 MSEK Adjusted for metal price effects and nonrecurring items, 330 MSEK, 8.8 %
ROCE	13.7%



# SANDVIK CONSTRUCTION Q4 2014

## CONTINUED CHALLENGING MARKET CONDITIONS

- Slightly higher activity in North America

## EBIT 4 MSEK, 0.2%

- Low sales and production rates
- Efficiency measures ongoing

## STRONG CASH FLOW

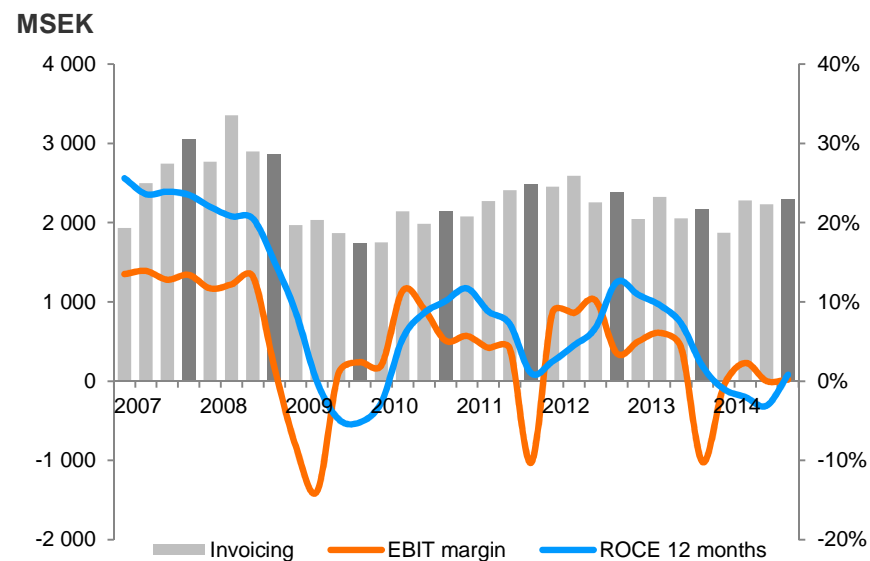
- Inventory reductions



# SANDVIK CONSTRUCTION

## Q4 2014

Order intake	2,038 MSEK
Invoicing	2,169 MSEK
EBIT	4 MSEK
ROCE	0.8%



# SANDVIK VENTURE Q4 2014

**STABLE DEMAND ACROSS SEGMENTS**

**SLIGHT ADVERSE IMPACT ON DEMAND FROM  
LOWER OIL PRICE**

**EBIT 335 MSEK (14.6%)**

- 310 MSEK (18.7%) excluding Varel

**STRONG CASH FLOW**

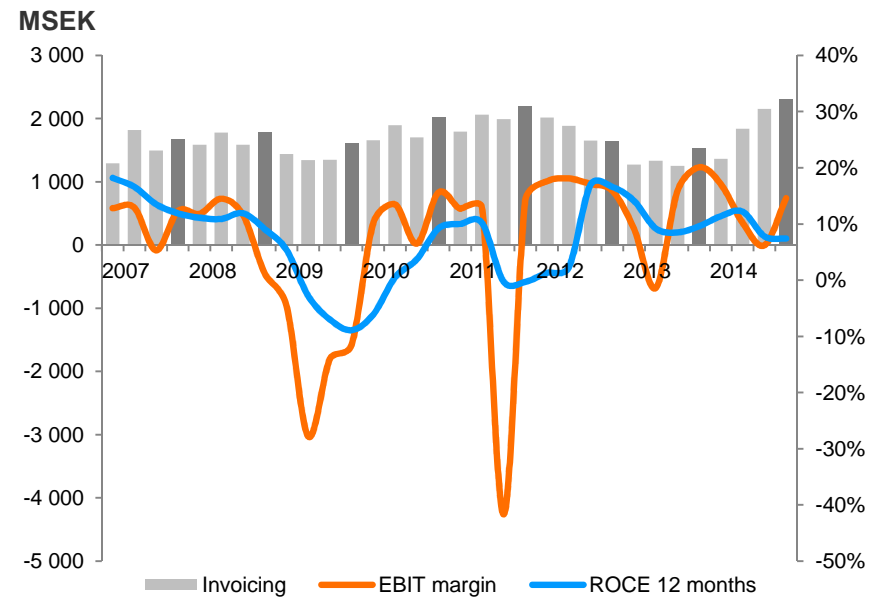




# SANDVIK VENTURE

## Q4 2014

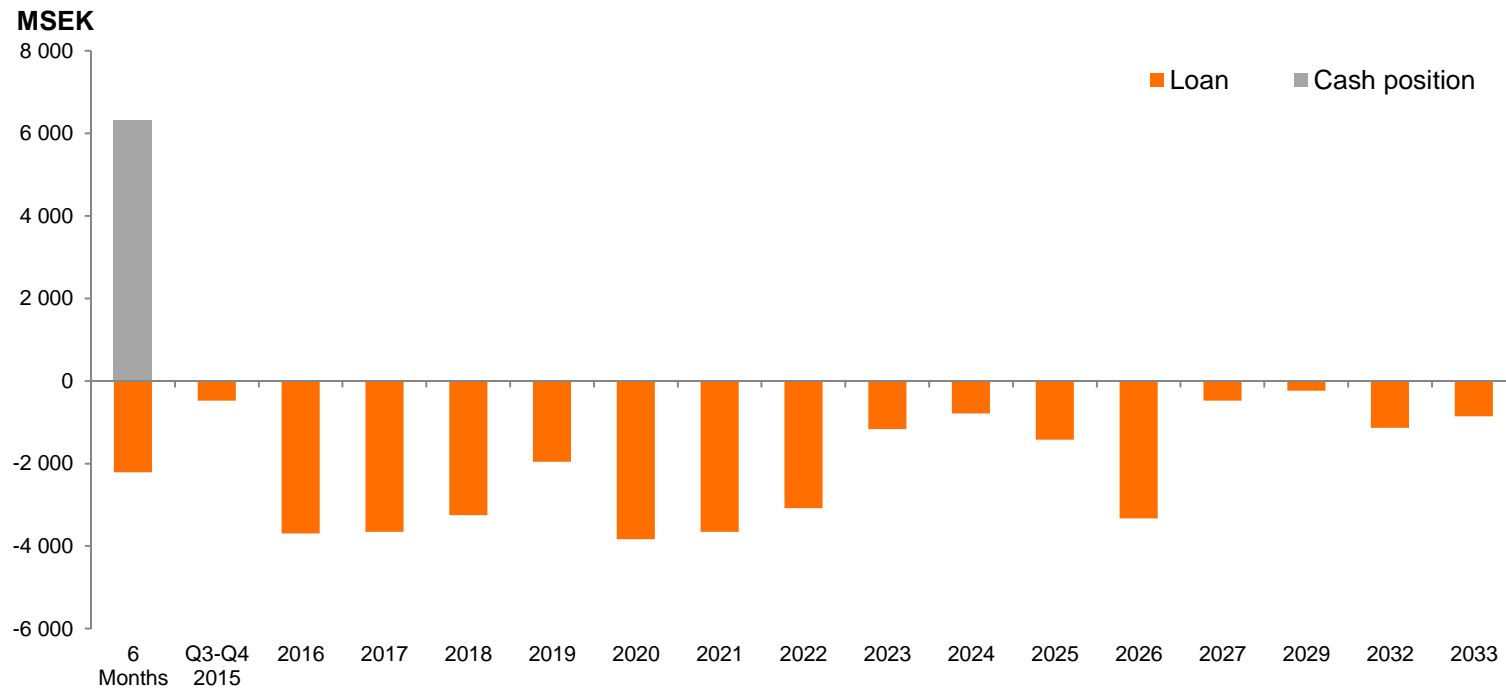
Order intake	2,123 MSEK
Invoicing	2,301 MSEK
EBIT	335 MSEK
ROCE	7.4%



# LOAN AND DURATION PROFILE

<b>LONG TERM</b>	<b>93%</b>	<b>AMOUNT MSEK</b>	<b>AVERAGE DURATION</b>
US Private Placement		6,328	5 years
Fin institutions, EIB, NIB		2,380	8 years
Swedish MTN		11,043	4 years
European MTN		10,437	11 years
Bank loans		2,633	4 years
Share swap		1,579	1 years
<b>SHORT TERM</b>	<b>7%</b>		
Commercial paper		692	4 months
Fin institutions, EIB, NIB		463	6 months
Swedish MTN		825	7 months
European MTN		0	0 months
Bank loans		691	0 months
<b>TOTAL</b>		<b>37,071</b>	<b>6 years</b>
Cash position		<b>6,327</b>	
Revolving Credit facilities, 11,188 MSEK			

# LOAN MATURITY PROFILE



# ACQUISITION OF VAREL

## ACQUISITION PRICE AND GOODWILL

Purchase price 5.1 BSEK

- Consideration for shares 2.8 BSEK
- Loan settlement 2.3 BSEK

Goodwill 2.5 BSEK

- Growth and profitability
- Strong market position in the oil and gas sector

## PURCHASE PRICE ALLOCATION

Assigned to tangible and intangible assets 1.6 BSEK

- Amortized over 10 years
- ~40 MSEK per quarter

Assigned to inventories 170 MSEK

- Amortized over 3-9 months
  - ~ 35 MSEK Q2 2014
  - ~ 80 MSEK Q3 2014
  - ~ **35 MSEK Q4 2014**
  - ~ 20 MSEK Q1 2015

# GUIDANCE

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<b>CAPEX</b>	Estimated at below 5bn SEK for 2015.
<b>CURRENCY EFFECTS</b>	Given currency rates in mid-January the effect on EBIT would be +600 MSEK for Q1 2015.
<b>METAL PRICE EFFECTS</b>	Given currency rates, stock levels and metal prices at the end of December, it is estimated that effects on operating profit Q1 2015 will be marginal.
<b>NET FINANCIAL ITEMS</b>	Net financial items is estimated to be about -2.0 bn. SEK for 2015.
<b>TAX RATE</b>	The tax rate is estimated to about 26-28% for 2015.

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